

Message Text

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ORIGIN SS-25

INFO OCT-01 ISO-00 SSO-00 /026 R

DRAFTED BY ARA/ECP:LPETERS:LJ

APPROVED BY ARA:RARELLANO

EB/IFD/OMA:WMILAM (DRAFT)

TREASURY:JJOHNSON (DRAFT)

ARA/ECP:SHROGERS (DRAFT)

ARA/CAR:AHWITT (DRAFT)

ARA:SASHELTON

S/S-O:LRFLEISCHER

-----130093 121745Z /46

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FM SECSTATE WASHDC

TO AMEMBASSY KINGSTON IMMEDIATE

S E C R E T STATE 008539

EXDIS

E.O. 11652: XGDS-1

TAGS: EFIN, MJ, JM

SUBJECT: JAMAICA'S IMF STANDBY STATUS

REF: STATE 308627, KINGSTON 0052

1. SUMMARY. WHILE WE APPRECIATE EMBASSY'S DESIRE TO BE HELPFUL IN INFLUENCING JAMAICAN ATTITUDES IN THIS SITUATION, WE CONTINUE TO PREFER THAT YOU NOT SEEK TO DISCUSS THE SITUATION WITH GOJ OFFICIALS. AMBASSADOR RATTRAY CALLED ON TREASURY ASSISTANT SECRETARY BERGSTEN TO REQUEST BRIDGE FINANCING AND HAS SUBSEQUENTLY BEEN IN TOUCH WITH BERGSTEN TO PROVIDE FURTHER INFORMATION. WE HAVE ALSO HAD FURTHER CONTACT WITH THE IMF HERE. INDI-SECRET

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CATIONS ARE THAT JAMAICANS ARE REACTING POSITIVELY. WHILE WE APPRECIATE YOUR KEEPING US INFORMED OF ANY INFORMATION YOU DEVELOP ON THIS SUBJECT, WE DO NOT WISH TO ENGAGE IN ANY ACTIVE INVOLVEMENT AT THIS TIME IN THE ONGOING IMF-GOJ DIALOGUES. END SUMMARY.

2. WE REALIZE THAT THIS ISSUE HAS BEGUN TO SURFACE

PUBLICLY IN KINGSTON AND THAT EMBASSY OFFICERS WILL UNDOUBTEDLY BECOME INVOLVED IN CONVERSATIONS WHERE THE SUBJECT WILL BE RAISED, BUT WE WISH TO AVOID ANY ACTIVE

INVOLVEMENT OR APPEARANCE THEREOF IN IMF-GOJ NEGOTIATIONS. YOUR REPORTING HAS BEEN APPRECIATED, BUT WE CAUTION YOU TO AVOID SPECULATING WITH JAMAICANS ON USG OR IMF ATTITUDES OR ACTIONS. MOST IMPORTANTLY, YOU SHOULD AVOID DIVULGING TO JAMAICANS ANY INFORMATION GIVEN TO USG BY IMF.

3. ON JANUARY 3 AMBASSADOR RATTRAY MET WITH ASSISTANT SECRETARY BERGSTEN AND OTHER TREASURY OFFICIALS. RATTRAY INDICATED THAT DUE TO GOJ'S FAILURE TO COMPLY WITH ONE OF IMF'S PERFORMANCE CRITERIA A NUMBER OF EXPECTED SOURCES OF EXTERNAL FINANCING WERE NO LONGER AVAILABLE, RESULTING IN A FOREIGN EXCHANGE FINANCING GAP. THEREFORE, HE WAS UNDER INSTRUCTIONS TO REQUEST US ASSISTANCE IN THE FORM OF BRIDGE FINANCING TO COVER THE PERIOD BETWEEN COMPLETION OF IMF-GOJ NEGOTIATION ON A NEW STABILIZATION AGREEMENT ACCEPTABLE TO DIRECTOR WITTEVEEN AND THE DISBURSEMENT OF 1ST DRAWING. RATTRAY WAS UNCLEAR REGARDING EITHER THE FINAL DIMENSIONS OF THE GAP OR THE NATURE OF ALTERNATE FINANCING WHICH MIGHT BE AVAILABLE TO FILL IT. ASSISTANT SECRETARY BERGSTEN, THEREFORE, LISTENED SYMPATHETICALLY AND REQUESTED FURTHER INFORMATION, WHICH RATTRAY AGREED TO PROVIDE.

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4. TREASURY AND STATE OFFICIALS MET AGAIN WITH IMF OFFICIALS ON FRIDAY, JANUARY 6 TO DISCUSS GOJ FAILURE TO MEET STANDBY TARGETS AND CLARIFY THE NATURE OF ANY FIRST QUARTER GAP. IMF OFFICIALS STATED THAT INDICATIONS TO DATE FROM JAMAICANS WERE POSITIVE TOWARD NEW NEGOTIATIONS. FUND IS PREPARED TO SEND A NEGOTIATING TEAM TO KINGSTON IN LATE JANUARY BUT IS AWAITING FURTHER WORD FROM JAMAICANS. FUND HAS NOT ASKED UNANIMOUS APPROVAL OF CABINET. THE AIDE-MEMOIRE SENT TO GOJ OUTLINES BROAD PARAMETERS OF AN EFF PROGRAM (NON-QUANTIFIED) AND REQUESTS CABINET APPROVAL OF THESE GUIDELINES IN ADVANCE OF NEGOTIATIONS.

5. THE IMF AND JAMAICA AGREED TO SIX PERFORMANCE CRITERIA UNDER THE STANDBY. AT PRESENT THE GOJ IS IN VIOLATION OF THREE OF THESE -- THE CEILING ON NET DOMESTIC ASSETS OF THE BANK OF JAMAICA, THE CEILING ON BANK CREDIT TO THE PUBLIC SECTOR, AND THE BALANCE OF PAYMENTS RESERVES TEST.

6. NET DOMESTIC ASSETS OF THE CENTRAL BANK EXCEEDED THE TARGET BY 10 PERCENT OR ABOUT J\$35 MILLION. THE PUBLIC

SECTOR BANK CREDIT CEILING WAS EXCEEDED BY ABOUT 3 PERCENT, ALTHOUGH AT THE TIME OF THE VIOLATION (DECEMBER 2), THE GOJ HAD PENDING A REQUEST FOR A NARROWING IN THE DEFINITION OF THE PUBLIC SECTOR, WHICH, HAD IT BEEN AC-

CEPTED BY THE IMF, WOULD HAVE BROUGHT JAMAICA INTO COMPLIANCE WITH THE PUBLIC CREDIT CRITERION.

7. THE BALANCE OF PAYMENTS PERFORMANCE TARGET SPECIFIED A \$10 MILLION NET INTERNATIONAL RESERVE LOSS FROM APRIL TO THE END OF DECEMBER. RESERVE LOSS WAS \$33 MILLION BY MID-DECEMBER, DESPITE A DRAMATIC CURRENT ACCOUNT DEFICIT IMPROVEMENT FROM THE \$151 PROJECTED IN THE STANDBY TO \$71 MILLION.

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8. THE PROBLEM OCCURRED IN THE CAPITAL ACCOUNT SPECIFICALLY IN THE AREA OF OFFICIAL CAPITAL INFLOWS. ACTUAL NET INFLOWS APRIL TO DECEMBER WERE ONLY \$22 MILLION, OR \$116 MILLION LESS THAN THE ORIGINALLY PROJECTED \$138 MILLION. THE VOLUME OF BOTH SPECIAL FOREIGN ASSISTANCE AND PROJECT AND DEVELOPMENT ASSISTANCE FELL WELL BELOW EXPECTATIONS. THE SHORTFALL IN SPECIAL FOREIGN ASSISTANCE AMOUNTED TO SOME \$76 MILLION AND THERE WAS A \$40 MILLION SHORTFALL IN INSTITUTIONAL AND BILATERAL DEVELOPMENT LOANS APPARENTLY CAUSED BY GOJ DECISIONS TO SPEND LOCAL CURRENCIES ELSEWHERE THAN ON DEVELOPMENT PROJECTS.

9. THE SIX TARGETS MENTIONED ABOVE WERE THE ACTUAL PERFORMANCE CRITERIA OF THE STANDBY, WHICH DETERMINED WHETHER FURTHER DRAWINGS WOULD BE AVAILABLE. IN ADDITION TO THOSE, HOWEVER, THE STANDBY INCLUDED OTHER GUIDELINES WHICH, WHILE THEY DID NOT DIRECTLY AFFECT THE DETERMINATION OF COMPLIANCE OR NONCOMPLIANCE, CAN PROVIDE INSIGHT INTO THE AREAS IN WHICH JAMAICA ENCOUNTERED DIFFICULTIES WITH ITS PROGRAM. ONE OF THOSE CONCERNED THE FISCAL DEFICIT.

10. WITH RESPECT TO THE FISCAL DEFICIT, DOMESTIC EXPENDITURES EXCEEDED THE CEILING OF J\$762 MILLION BY A MINIMUM OF J\$20 MILLION, WHILE REVENUES WERE J\$57 MILLION BELOW THE EXPECTED J\$404 MILLION. ABOUT J\$40 MILLION OF THE REVENUE SHORTFALL RESULTED FROM THE FAILURE TO REALIZE FOREIGN EXCHANGE TRANSACTION PROFITS WHICH HAD BEEN EXPECTED BY THE GOJ. ON THE EXPENDITURE SIDE J\$6-12 MILLION OF THE OVERRUN WAS THE RESULT OF THE GOJ'S ABROGATION OF THE AGREED INCOMES POLICY,

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IN PARTICULAR THE GRANTING OF RETROACTIVE PAY INCREASES IN THE PUBLIC SECTOR.

11. IN SUM, THE GOJ'S PERFORMANCE UNDER THE STANDBY, WHILE AFFECTED BY SHORTFALLS IN EXTERNAL ASSISTANCE FOR WHICH THE GOJ COULD NOT BE HELD ENTIRELY ACCOUNTABLE, WAS FURTHER WEAKENED BY THEIR OWN DECISIONS -- MOST PARTICULARLY DECISIONS RELATING TO INCOMES POLICY, NATURE OF PUBLIC EXPENDITURES, AND EXCHANGE RATE POLICY.

12. WITH RESPECT TO FIRST QUARTER FINANCING GAP, OUR ANALYSIS IS STILL NOT PRECISE AS THERE APPEAR TO BE SEVERAL DIFFERENT VERSIONS OF THE GAP. WE ARE CURRENTLY WORKING TO REFINE THE ANALYSIS AND WOULD APPRECIATE ANY INFORMATION EMBASSY MAY HAVE ON FOLLOWING SUBJECTS: (1) HOW MUCH IF ANY CANADIAN FOOD ASSISTANCE MIGHT BE DISBURSED DURING JANUARY-MARCH?; (2) ANY BILATERAL ASSISTANCE OTHER THAN CANADIAN, US, NORWEGIAN \$21 MILLION LINE OF CREDIT THAT MIGHT BE DISBURSED DURING THE PERIOD? (3) ANY UPDATE YOU MAY HAVE ON THE PROJECTED RATE OF DISBURSEMENT OF OUR OWN PL-480 DURING THE PERIOD? CHRISTOPHER

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL STABILITY, LOANS
Control Number: n/a
Copy: SINGLE
Draft Date: 12 jan 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE008539
Document Source: CORE
Document Unique ID: 00
Drafter: LPETERS:LJ
Enclosure: n/a
Executive Order: X1
Errors: N/A
Expiration:
Film Number: D780018-0844
Format: TEL
From: STATE
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780169/aaaacgcd.tel
Line Count: 198
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: dc36fce3-c288-dd11-92da-001cc4696bcc
Office: ORIGIN SS
Original Classification: SECRET
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: EXDIS
Reference: 78 STATE 308627, 78 KINGSTON 52
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 18 jul 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3782618
Secure: OPEN
Status: NATIVE
Subject: JAMAICA\ S IMF STANDBY STATUS
TAGS: EFIN, PORG, JM, IMF
To: KINGSTON
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/dc36fce3-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014